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INCOME TAX

HOW TO AVOID OVERCHARGES
AND OBTAIN REPAYMENTS
With A CHAPTER ON SUPER-TAX

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A. D. MACMILLAN

FORMERLY SURVEYOR OF TAXES

(FOURTH EDITION, 1922-23)

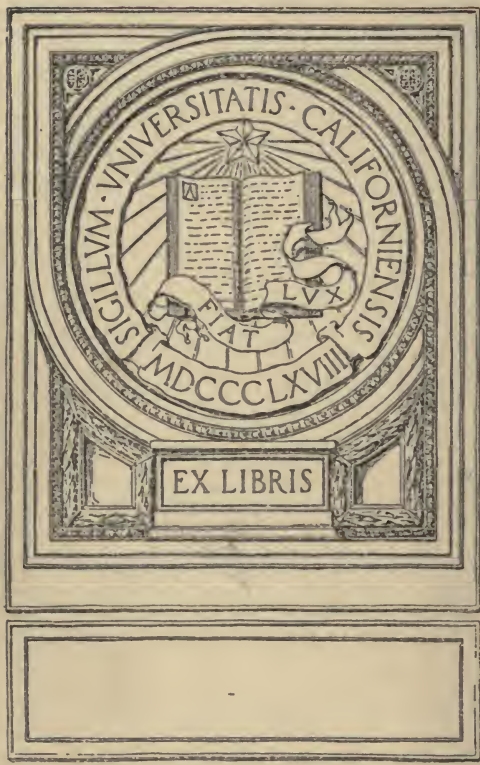
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BY

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PREFACE TO FOURTH EDITION

FOR all practical purposes, reference to the law as it stood before the Finance Act of 1920 is now only useful for Repayment Claims, and the necessary information is contained in a single chapter (Chapter VI.).

Owing to the reduction of the initial liability to Super-Tax, which has brought many thousands of persons within the net, it has seemed desirable to deal with that tax, more especially as it is now recognised that Super-Tax is Income Tax.

Some important changes have been made by the Finance Bill of 1922, which are herein entered, in anticipation of the sanction of Committee, viz. :

- (1) Transfer of all employments to Schedule E, thus depriving clerks and others of the benefit of the three years' average.
- (2) Additional relief (after the year 1922-23) to property owners to meet the extra cost of repairs.
- (3) Modification of the mode of assessing untaxed interest.
- (4) Steps to prevent evasions of tax by the formation of practically fictitious companies for the administration of a private estate, and by the formation of trusts for the ostensible benefit of children, while the alleged disponent has power to benefit by the income.

It is believed that nothing of real general importance has been omitted, and that the ordinary man will find herein a safe guide on all points likely to arise.

At the same time, it would be unfair to conceal the fact that while the broad principles governing the proper assessment of the tax can be stated fairly simply, the application of these principles to matters of detail is often extremely intricate, and in case of doubt it is frequently real economy to call in an expert.

A. D. MACMILLAN.

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INCOME TAX

CHAPTER I

CAUSES OF OVERCHARGE

ERRORS and overpayments are usually due to two causes—first, the incorrectness of returns, and, second, the fact that a large proportion of incomes generally are not paid for direct to the Revenue by the persons receiving them, but come through third persons, tax being deducted in the transfer.

It is well known that no person is liable to Income Tax whose income does not exceed £135, but to prevent loss, the law charges all income, so far as possible, at its origin. Thus, a Public Company may have a thousand shareholders, of all degrees of wealth; perhaps a millionaire or two, several whose incomes run into thousands, a large number of fairly well-to-do persons, and, at the other end, some very poor persons who own only one share each, and whose entire incomes are perhaps less than £100 a year. If the Company makes a profit of £50,000 a year, the Revenue makes one assessment of £50,000 on it, and charges tax on the whole amount at the highest current rate. It is impossible for the taxing authorities to inquire into the circumstances of each of the

shareholders and collect tax on their aggregate real liability. The result is that the Company is forced to deduct tax *pro rata* from each shareholder's dividend at the same rate as it has itself paid. Hence the widow whose little all is invested in the Company, and who receives a half-yearly dividend on her shares, say £50, does not get £50 in cash, but £50 less Income Tax. For 1921, when the tax was 6s. in the £, this would amount to a deduction of £15, and her cheque would be for £35 only. The Company leaves her to settle the question of this £15 with the Revenue authorities.

This kind of overcharge, then, is not the taxpayer's fault; but, as things are, it can only be redressed by the person concerned making a claim for repayment, or "set off" against income on which tax is paid direct.

The same kind of thing is found with regard to property. A house in London is usually held on lease, and there may be a mortgage in addition. The rent, then, is shared among three persons—(1) the Landlord, (2) the Ground Landlord, and (3) the Mortgagee. If the landlord has not made a claim for relief, the tax collector knows nothing about him officially, and calls on the tenant to pay tax according to the full value of the assessment. The tenant stops the tax so paid out of his next payment of rent to the landlord. But the matter does not end here. The landlord has, in turn, to pay away (say £5) ground rent to somebody else, who may be a wealthy man, or, again, may be a poor person with a very small income. He has also to

pay the interest on his mortgage to yet another person. Having thus paid tax on an amount which has to be divided between himself and two other persons, the only way he can protect himself is to deduct tax at the full rate from the ground rent and the mortgage interest.

In these ways nearly every person receiving income through another person pays tax indirectly. He may not be liable to pay any tax at all, by reason of his entire taxable income from all sources not exceeding £135 a year, but if he does not make a claim he loses the amount. The Revenue does not seek out those exempt, and there is no doubt that a vastly greater amount is collected annually than is properly due. A very large amount is repaid to successful claimants, but by no means the whole. It has been estimated that several millions of pounds are lost to the taxpayer every year in this way, but this, of course, can only be conjectured.

The other cause of overcharge—viz., errors of omission or commission in the returns—usually takes the form of omission to claim legitimate deductions from gross income, but it may also arise from returning for assessment some item which is not chargeable at all.

There is yet another reason for overcharge—viz., the opinion of the Commissioners that the income returned has been understated, deliberately or not, by the taxpayer. In so far as this return, though incorrect, was honestly made, the following pages will serve to put matters right for the future. The other sort we need not concern ourselves about.

As an instance of an error, a professional man may return his income as £520, overlooking the fact that if he carries on his work at his house he can deduct a good portion of the entire rent as an expense. Say he pays £60 a year. In some cases he may claim as much as £40 deduction on this ground. In the case mentioned, suppose the £520 was the real balance after deducting actual professional expenses, apart from rent. He might have shown his income, quite correctly from the tax point of view, at £480, which would, at the present rate of tax, make a difference to a single man of £9, and to a married man of £6 15s.

As examples of the other kinds of error, it not infrequently happens that a person who has received income that has already borne tax includes it for taxation again in his return, and so pays twice over. Or he may include a voluntary allowance from a relative, which is not considered as his legal income at all, and on which the donor has already paid tax. Or a person may let a house furnished, and return the full rent received, oblivious of the fact that the unfurnished value of the house has already paid property tax, and that from the rent received an allowance has also to be made for wear and tear of the furniture, and local rates payable by the owner during the tenancy.

Errors of this nature are not altogether due to the person's own stupidity. It is true that the official forms give an elaborate classification of incomes, so that you have only to put the right figures down in the right space, and, in addition, those under Schedule D

also give directions how to calculate the income; but these, in common with most official documents, are *too* informative. In providing for every conceivable case, they overload the papers with detail, irrelevant in most cases to the needs of the particular person concerned.

Let us see if we cannot put the matter simply.

CHAPTER II

WHAT IS MEANT BY THE TERMS "SCHEDULE A," ETC.

THE various sources from which income is received are classified in the Acts of Parliament under five heads, called "Schedules."

Schedule A deals with the *ownership* of houses and lands (Property Tax). A number of other subjects are assessed under this Schedule: for instance, tithes, manorial rights, fines on renewal of leases, and others; but these items are relatively unimportant, and affect only a very small proportion of the public.

Mines, quarries, railways, gas, water, and iron works, and a number of similar concerns, are also included in this Schedule, but are assessed under the rules of Schedule D—that is, upon their actual profits as determined by the accounts.

Schedule B deals with the profit from occupation of lands (Farmers' Tax).

Schedule C deals with interest from Government Stocks.

Schedule D deals with trades, professions, business in general, and a number of special subjects, such as—

Interest received untaxed or in full.

Profits of cattle-dealers and dairy-farmers
not covered by the charge under
Schedule B.

Foreign securities or possessions.

Any annual profits not otherwise charged.

It will be seen that this Schedule covers all sorts of liability not included in the others, but it is only of *general* interest as regards trades and professions.

Schedule E includes every office or employment of profit, and all annuities, pensions, or stipends payable out of the public revenue, except annuities charged under Schedule C.

SCHEDULE A.

This charge is made on the actual letting value of a house, building, or piece of land where the owner does repairs and the tenant pays the rates. In ordinary annual tenancies, three-yearly agreements, or short non-repairing leases, it should be the actual rent, and from this gross assessment an allowance of one-sixth for repairs is made. [After the year 1922–23 the allowance for repairs will be larger in the case of small houses, not exceeding £40 in annual value (see p. 20).] That is, if a house is let for £42, the net Schedule A assessment should be £35. In the case of farms and other lands, the allowance for repairs is one-eighth. In this case, too, the tithe payable is deducted, because the latter is nearly always charged on the tithe-owner in one sum for the whole parish. So if a man holds a farm at £400 a year, and the tithe is known to be £15 a year at the time of making the assessment, the latter would be—

	£	£
Rent		400
Less tithe	15	
Less repairs (one-eighth of £400)	<u>50</u>	
		<u>65</u>
		335

Land Tax, if any, and any public drainage rate are also deductible. The latter is only found in parts of the country, but the former still exists all over Great Britain.

The tax is charged on the net sum—£35 and £335 in the above cases—by two equal half-yearly instalments, and in the ordinary course the tenant deducts the whole sum so paid out of the next payment of rent.

In his turn, if the landlord has to pay out of the rent so received any ground rent, head rent, fee farm rent, mortgage interest, annuity, or other annual payment of any kind (not, of course, a public tax), he can deduct tax at the highest current rate from it, as described on page 14. In this way all the persons drawing any pecuniary benefit from this particular holding bear their share of the tax on it.

In the case of repairing leases, the assessment is made at a higher figure than the rent (usually 10 per cent.) and the allowance for repairs is restricted to the difference between the two figures. In this case the tenant deducts tax on the full rent, but no more, and has to bear the difference (if any) himself. The “beneficial occupation,” as it is called, is part of his own income.

After 1922-23 the normal allowance for repairs will be increased, temporarily, for five years. When the annual value of a house does not exceed £20, the allowance will be one-fourth; when it exceeds £20, but not £40, one-fifth; and houses of higher value will get the same allowance as at present. In the case of repairing leases, the allowance must not reduce the net assessment below the actual rent.

Where a tenant gets a long lease at a nominal rent in consideration of his paying a premium, or laying out a considerable sum on the property, the assessment is made on the improved value, and the tenant can only deduct tax on the actual rent, as in the last case. No allowance is claimable for depreciation of the lease.

Houses and buildings generally (not farmhouses), if unlet for the whole or a portion of the year, are not subject to tax, and a deduction should be claimed if any such loss was sustained during the preceding year or half-year, as may be arranged with the Inspector of Taxes. Similarly, if rent is lost through a defaulting tenant, an equivalent proportion of the tax may be deducted. Forms for claiming these deductions can be obtained from the Inspector for the district.

As regards weekly property, where tenants are in normal times continually moving in and out, and defaults in payment of rent are common, the owner can take the actual rent received during the year up to March 31st (or some convenient date to be arranged with the Inspector of Taxes) in respect of a whole block of houses. From this he deducts the usual outgoings — rates, Inhabited House Duty, water, insurance, emptying cesspools, cost of collection, etc.— and the balance, less the allowance for repairs, will represent the amount on which tax is payable, *if less than the assessment*. For exceptionally heavy repairs, see p. 23.

If money is borrowed from a *Permanent Building Society* for the purchase or upkeep of property, the interest is allowed as a deduction from the assess-

ment. This is now done by the Secretary of the Society furnishing a certificate to the Inspector of Taxes direct, and the latter instructs the collector to allow the tax on the amount so certified. The reason for making this concession, instead of making the landlord pay tax on the interest and then recover it from the Society, is that, as a large proportion of Building Society members are comparatively poor persons, insistence on the general rule would unduly swell the number of repayment claims. The Society therefore, in the great majority of cases, returns the *whole* of its interest for taxation, and is allowed a substantial rebate to provide for exemptions. Having paid the tax in this way, it is freed, through its individual members, from further payment. This does not apply to terminable (*e.g.*, Starr-Bowkett) societies. The payments to these societies are regarded as capital repayments of the loan.

Any overdraft from a bank for the same purpose is dealt with in the same way, but the procedure is somewhat different. The borrower obtains from the bank a certificate showing the interest charged for the year, fills up a form giving a full statement of his income, and sends these to the Inspector of Taxes. The allowance is made only by way of repayment.

These allowances may be reclaimed at any time within three years after the year of assessment, but, of course, no sensible man would defer his claim so long. Apart from life being uncertain, the Revenue allows no interest on unclaimed tax.

Arrears of Property Tax left unpaid by a previous

tenant may be recovered from the later occupier, and deducted by him from the rent in addition to any tax due in respect of his own tenancy.

In the area of the County of London, should a house be assessed higher than the rental on an annual tenancy or other non-repairing agreement, an appeal should be made to the Assessment Committee of the Union. If they reduce the rating, the tax assessment will follow suit. Outside this area, the occupier should send his last rent receipt, or the agreement, to the Inspector of Taxes with the demand note, and ask for a reduction to the proper figure. It will be politic to send also the demand note for rates, as some Inspectors seem to have the impression that the poor rate valuation must be taken as a minimum. This is not the case, but it is less trouble to send the paper than to argue the point.

A very substantial concession was made to property owners in 1919 and extended in 1920, and also for 1923-24.

If on any houses managed as one estate the annual cost of maintenance, repairs, insurance, and management exceeds the allowance made in the assessments, tax on the overplus will be repaid.

The conditions are, beginning with the year 1920-21 :

(a) The houses must not exceed in annual value—

In the Metropolitan Police District, including				
the City of London	-	-	-	- £105
In Scotland	-	-	-	- 90
Elsewhere	-	-	-	- 72

(b) The cost of these repairs, etc., must be taken on the average of five years preceding, not on the current cost.

“Annual value,” it must be remembered, is the *gross* valuation. The figure shown on a demand note is the *net*, and the allowance made for repairs in the assessment must be added.

Prior to 1919 this allowance was restricted, as regards houses, to those not exceeding £12 of annual value, and for 1919 the above figures should read £70, £60, and £52.

After 1922–23 there will be no limit of annual value.

Any relief dependent on the *total personal income*, from every source, will be shown later, in Chapter IV.

SCHEDULE B.

This is very simple. No calculation of profits is required, but the income of anyone from land that he occupies for purposes of husbandry, whether he owns it or not, is reckoned as equal to the rent. If a man is both owner and occupier, he therefore pays Property Tax on seven-eighths of the full value, *and* Schedule B on the full value. If he is the tenant only, he pays the same, but gets back the Property Tax from his rent.

Farmers are entitled to appeal at the end of the year for a revision of the assessment if they have not made the sum assessed, and if successful the assessment will be reduced to the right amount, or repayment made, as the case may be. Any actual loss

can be set off against any other income owned by the farmer, and the Income Tax or Super-Tax payable will be reduced accordingly.

Or, if they do not wish to be assessed in this rough-and-ready way, they can be assessed as a trade, under Schedule D, on the average profits of the last three years. If the question be asked, "What is the benefit to be gained by this course?" the answer is that if any year results in an absolute *loss* there will be the benefit of having the loss set off against future profits in calculating the average in the following years. The difficulty of keeping farm accounts will probably cause tenant farmers to prefer Schedule B to Schedule D as the basis of assessment. Large farmers, particularly owners who have an estate agent to manage affairs and keep books, may find the change advantageous.

Nursery and market gardeners, however, are assessable as under Schedule D on the average profits of the last three years, and owners of woodlands worked on a commercial basis may, if they think fit, be assessed in the same way. This would, no doubt, be to their benefit, as it takes years for a wood to become fit for cutting, and Schedule B is payable every year, while Schedule D only becomes payable when profit has been made. On the other hand, there are certain current expenses going on for the whole period, such as the wages of woodmen, and, if Schedule D is adopted, these can only be claimed for three years. The pros and cons should be weighed carefully before a definite choice is made.

If for good reason shown the land is not occupied for

purposes of husbandry, the tax is calculated on an amount equal to one-third of the annual value.

Where there is not more than an acre of gardens attached to the house, no charge should be made under Schedule B. This acre is included in the Inhabited House Duty assessment.

SCHEDULE C.

Little need be said about this. The assessments are made by the Special Commissioners in conjunction with the Bank of England and the great financial houses, and the taxpayer has nothing to do with the matter beyond receiving his dividends. Very small dividends (not exceeding £2 10s. the half-year), when paid by the Bank of England, and the Post Office, are not subjected to tax, and should be returned for assessment under Schedule D. This is also the case with the 5 per cent. War Loan, 5 per cent. National War Bonds, and 6 per cent. Exchequer Bonds, when registered in the name of the owner.

SCHEDULE D.

This is *the* Income Tax that has been cursed by three generations of the British public. It has been productive of a modest library of reported law cases turning on disputed points, and was stated by Mr. Gladstone to be more prolific in difficulties than any other part of the Statute Law. Considering that it deals with such a colossal subject as modern commerce, ever growing in extent and complexity, and, in addition, hits the Briton in his tenderest spot—

that is to say, his pocket—it is natural enough that it should be intensely disliked, and that a new profession should have grown up of Income Tax experts who are prepared to show the public how to avoid paying it as far as possible.

A good deal of difficulty has been caused in the past by the fact that the statutes contain no definite statement of what expenses are allowable in calculating income. Certain deductions are forbidden, viz. :

- (1) Private outlay for the taxpayer or his family.
- (2) Rent of private dwelling-house. If the premises are partly used for trade, etc., as a rule not more than two-thirds of the whole annual value can be charged ; but see p. 30 for exceptions to this rule.
- (3) Expenses not wholly laid out for trade.
- (4) Repairs, etc., exceeding the average of the last three years.
- (5) Any loss unconnected with the trade, etc.
- (6) Capital withdrawn, or money transferred to capital account.
- (7) Money spent on improvement of premises.
- (8) Interest on capital.
- (9) Money owing to business, except bad and doubtful debts.
- (10) Any "average" loss, exceeding the actual loss, as adjusted.
- (11) Sums recoverable under insurance, or contract of indemnity.

(12) Annual interest, or other annual charge payable out of profits.

(13) Patent royalties ;

but the rest is a matter of inference. Recent decisions in the Courts have been in the direction of liberality, and outlay which is not immediately profitable, but which is calculated to bring in future profits, may be taken as generally admissible.

The form of return (No. 11) contains a number of declarations. As regards the general public only those on pp. 2, 3, and 4 need be filled in. Those on p. 1 relate (*a*) to cases where a person has already made a return at a different address, and (*b*) where the person applied to is only a temporary resident in this country.

Page 2 is intended for a declaration of any *untaxed* income, now to be assessed.

Page 3 is for a declaration of the person's *entire* income from all sources, including that of his wife, even if her own property.

(The wife can, if she choose, make a separate return, but this carries no pecuniary advantage, as explained later.)

Page 4 is for various allowances : Insurance, wife, children, housekeeper, or dependents.

Pages 2 and 3 should always be completed and the others when necessary. Attention to this point will in most cases remove the necessity for a subsequent repayment claim.

As before stated, this Schedule of the Act comprises Trades and Professions, and business in general,

besides special matters not of general interest. It will be more convenient to discuss these separately.

Trades.

The calculation of trade profits is made difficult because so many of the smaller shopkeepers keep either no books of account or very imperfect ones. The result is that when asked for a statement of their profits they make an estimate, which may be excessive, but, truth to tell, is usually much below the mark. This, however, is largely due to want of knowledge. Many of them think that their profit is the amount they have put by during the year. They do not realise that the cost of their living is part of their profit.

The first essential for proper accounting is to take stock at the beginning of each year, or oftener, and to show how much it has increased or decreased during the year.

In a small business this should not take long, and if a note be made at the time in a book kept for the purpose the value can be entered at cost price.

The next thing is the purchases during the year. These should be set down in full, less any discount obtained, and the statement should include any unpaid bills outstanding at the end of the year.

The sales should include cash actually received and all debts due from customers at the end of the year. Money paid or received on account of the *previous year's transactions* should not be included.

These three items—stock at the beginning and end of each year, purchases, and sales—will show the gross profit. Then come the deductions from

profits to arrive at the *net* profit. They will include rent, rates and taxes (but not Property or Income Tax), wages—but not the tradesman's own drawings; stable expenses; gas and water; carriage; printing, postage, and stationery; repairs of tools or implements; interest on bank overdraft; renewal of articles worn out (but not the purchase of additional ones); advertising, licences, trade subscriptions, breakages, and, in short, the usual expenses incidental to the business, but not any money laid out for any purpose whatever apart from the business. Bad debts, of course, come off, but, as a rule, the Commissioners are chary of allowing doubtful debts. They prefer to wait till they are actually written off.

Until 1921 not more than two-thirds of the rental value, and of the rates, could be claimed or allowed in respect of premises partly occupied by the tenant in his private capacity. It was considered that the remaining portion represented private outlay. This allowance probably worked fairly in most cases, but there were instances where the restriction caused gross injustice. Take the case of a West End boarding-house keeper occupying three contiguous and intercommunicating houses for her trade at a rental of £500, and rates on top of that, probably another £300. In calculating her trade income she would be treated as if occupying a house privately of the value of £166 per annum! In all probability she reserved only one room for herself, giving up all the rest to the requirements of her business. The same thing happened, to an even worse extent,

in the case of licensed premises. Many a publican who, if living privately, would rent a house at £40 a year, was treated as if occupying a mansion. To remedy this open injustice, it was enacted in 1921 that the Commissioners might allow a greater proportion than two-thirds in special cases.

It is not difficult in general for anyone to decide what is a business expense and what is not. If, for instance, a country tradesman is driving on his rounds, and the horse is startled by an engine whistle, runs away, and breaks the shafts, the repairs would be a proper business charge; but if the same man drives out to a social gathering, gets too social, and runs over a wayfarer on his return journey, the bill for damages would certainly not be a business expense, though it is the same horse and the same trap, with the same driver.

In the same way, if a man provides for his family wants from the shop, he must add the value of the goods so taken to his sales, unless, which is rarely the case, he puts the equivalent money in the till at the time. But if his assistant embezzles from the till, that is a trade expense.

Cases occasionally crop up where it cannot be said that the expenses are wholly incurred for business purposes. A medical man may employ his parlourmaid *partly* in attending to his waiting-room; or a business man may spend a large amount in entertaining people who may be useful later on. It can only be said that such cases must be judged on their merits, and, as a rule, the law is not strained against the taxpayer.

A person making a loss on one trade may set it off against profit on another *trade*, and any sum paid out for Excess Profits Duty (less refunds) may be charged as a trade expense.

Money laid out for improvements, or extensions of the business, is not allowable. Where a man takes a shop and spends £200 in refitting it to suit his own class of trade, that is an outlay of capital. If after an interval he does up the shop and takes the opportunity of installing electric light instead of gas, the cost of the painting is a proper deduction, but not the installation of the electric light.

It is open to question how far the cost of a sudden outlay on advertising an established business could be legally allowed: but the tendency to allow it.

It is a matter of everyday occurrence in a tax office for some tradesman to "appeal" against an assessment of, say, £300, saying that his profits are only £130, and it is very difficult to persuade him that this is not the case. But a long experience has shown that, as a rule, the assessment is nearer the mark than the return. The errors usually arise from ignoring increases of stock; from assuming a rate of profit which is too low—for instance, omitting the margin charged on goods booked, as compared with the price charged to cash customers; from underestimating the average weekly sales; guessing at the "sundry" expenses; and omitting to reckon in money or goods taken for his private use.

It cannot be too clearly emphasised that without

proper accounts a tradesman is absolutely helpless in the matter. Inspectors of Taxes are officially told not to make speculative charges, but if it comes to the knowledge of one that a tradesman returning his profits at £200 without any private income has, say, bought a motor-car, he naturally asks himself how it can be done? If that tradesman, next year, returns about the same sum, he must not be surprised if his assessment goes up at a bound to £1,000, and, *mark well*, the onus of disproving this lies with him. It is not incumbent on the officials to justify their action.

The best advice the writer can give to any tradesman who has no proper system of accounts is to call in a professional accountant, and ask him to draw up a simple set of books and show him how to use them. It will pay for itself over and over again, and enable him to avoid the painful and costly interviews with the Revenue officials that make his life a burden at present.

This is not a treatise on book-keeping, but as a hint it may be stated that the final accounts should be made out in a form like the following :

TRADING ACCOUNT.

Year.	£ s. d.	Year.	£ s. d.
Jan. 1. To stock on hand		Dec. 31. By sales during year (less discount allowed)	
Dec. 31. To purchases during year (less discount received) ...		Dec. 31. By stock on hand	
Dec. 31. To balance, being gross profit ...			
Total £		Total £	

This gross profit is carried down to the Profit and Loss Account, and against it are set off separately the expenses incurred during the year as follows :

PROFIT AND LOSS ACCOUNT.

<i>Year.</i>	<i>£ s. d.</i>	<i>Year.</i>	<i>£ s. d.</i>
Dec. 31. To wages ...		Dec. 31. By gross	
" " rent, rates,		profit from trading	
taxes (not		account ...	
Income			
Tax) ...			
gas, water,			
fuel, stable			
expenses,			
and any			
other ex-			
penses			
that the			
nature of			
the busi-			
ness re-			
quires ...			
balance —			
net profit			
	<hr/>		<hr/>
Total £		Total £	
	<hr/>		<hr/>

In keeping an account of the numerous items of outlay (which occur over and over again during the year), a person who is his own book-keeper, and has not time or skill sufficient to keep his books in the usual way, may manage by utilising a book ruled with a dozen or so parallel columns, heading each one with the main classes of payments.

This is similar to a classified petty-cash book, as used by large firms, and, the total of each column being cast up and carried forward till the end of the year, answers to a ledger account. An example is appended :

Date.	Wages.	Rent, Rates, Taxes.	Gas, Water, Fuel.	Stable and Motor Ex- penses.	Carriage.	Printing, Postage, Stationery.	Repairs and Renewals.	Bank Charges.	Bad Debts.	Trade In- surances.	Sun- dries.	Total.
Total...												

When the average profits have been ascertained for three years, the amount is entered on page 2 of the form. Then page 3 should be completed. It will show, not only the amount of the trade profit already entered, but the whole of any private income enjoyed by the claimant and his wife, including the annual value of his house, if he is the owner, even if it is mortgaged. The outlay for ground rent and mortgage interest is entered below in the space provided.

The writer's experience shows that many persons do not understand that this page

of the return should include all income already taxed. It will not be taxed again, but it is necessary to show the *entire* income, so that the allowances may be properly made.

Many men supplement their regular income by occasional earnings from agency work, journalism, evening work, singing at concerts, etc., and the wife may take boarders. Profits from these and similar sources have to be shown on page 2. The rent of rooms let unfurnished, in the occupier's house, is not assessable, being covered by the property tax assessment. Lastly, page 4 should be completed in order to gain proper allowances.

Professions.

A professional man's return is relatively simple. There is no stock to consider, only revenue and expenditure. The former should show all money *earned* during the year, whether received or not,* but the receipts on account of bills outstanding from the last year should not be included. The expenditure, with the same reservation, should comprise all outlay incurred, even if not yet paid for, during the year. The expenses will be the crux. They comprise all outlay incidental to the nature of the work that may have been *wholly, necessarily, and actually* incurred. If a workman or clerk is employed, charge the wages. If the profession is carried on wholly or partly at the private house, a proportionate part of the rent, rates, gas and water can be charged, not exceeding two-

* Medical men, however, are as a rule allowed to show their actual receipts, for reasons sufficiently obvious.

thirds. If a separate office is maintained, the whole rent and office expenses can be charged. If a maid is kept for callers, her wages and board may be charged. If she is partly employed in domestic work she does not come within the strict allowance, but a concession is usually made. The cost of professional books and papers is allowable. So is the upkeep of a trap or motor, with the attendant garage and stable expenses, licences, driver, etc., though not the actual purchase of the vehicle, etc. Repairs and renewals of instruments; subscriptions to technical societies; travelling to cases or professional meetings; cost of materials; emoluments of a *locum tenens* (this has been questioned [as not being an expense incurred in the personal performance of the duty, but rather the cost of having the duty performed by someone else], but it is usually recognised that a profession needs keeping together during the temporary absence of the owner); bad debts, actually written off—all these may be cited as proper deductions.

Many professional men, skilful enough in their own line, seem to be unable to furnish accounts or to devise a set of books that will suit their practice. It is suggested that they would find it a good investment to get some qualified person to draw up a suitable form which would enable them to keep this most important matter in order, though as a makeshift the remarks under "Trades" may assist the reader in the matter.

Having arrived at the profit for each of the three years preceding, and taken the average, the

return is made in the manner shown above under Trades.

* * * * *

Under Schedule D a person is given the option of being assessed in three ways—by the General Commissioners of the district; by the same under “Number” or “Letter”; and by the Special Commissioners.

Nothing is gained by the second course, which is virtually obsolete. As regards the other two methods, assessment by the Special Commissioners in London takes the matter entirely away from the Local Commissioners and Collectors, and the only persons cognisant of it are the taxpayer himself, the Inspector, and the London officials. Assessment by the General Commissioners involves bringing the matter to the knowledge of the Local Commissioners of Taxes, their clerk, *his* clerks, the Inspector, his clerks, and to some extent the tax collector. This knowledge may be abused, though in fairness it should be stated that cases of this sort are of the very rarest occurrence, and the risk is practically negligible. Assessment by the General Commissioners is the plan adopted by the vast majority of taxpayers.

Page 2 of the form No. 11 also provides for the assessment of untaxed income other than from business carried on by the person concerned. Very clear directions are given in the margin of the form, and only a few comments need be made here.

1. INTEREST received in full should be returned according to the sum received in the previous year up to April 5th, irrespective of what may

be coming in during the year of assessment, unless it is received for the first time, when the income for that year is assessable. Afterwards, the amount accruing in the previous year is taken in all cases.

2. FOREIGN OR COLONIAL SECURITIES are returnable on the anticipated yield of the year of assessment, whether the money is actually receivable in this country or not.
3. FOREIGN OR COLONIAL STOCKS, SHARES OR RENTS, are chargeable on the average yield of the last three years, whether remitted here or not.
4. OTHER FOREIGN POSSESSIONS, on the average receipts in this country of the last three years.

N.B.—In the last three cases, the amount returnable was, up to and including the year 1919–20, the net amount, after deduction of the foreign or Colonial tax. For 1920–21 and later years, as regards Colonial income but not foreign, it will be the gross sum, and relief from the double charge will be separately given. (See p. 55).

Persons resident here, but having a foreign domicile, are treated somewhat differently, as regards Nos. 2 and 3. The former pay on the actual receipts in this country during the year, and the latter on the average receipts in this country for the last three years, as under No. 4.

A remittance to a wife in England by a person abroad out of his earnings there is not assessable at

all, and should not be shown on any Income Tax return made here. (But on this point see Section as to Foreign Residents, below.)

When a person buys stocks or shares on credit, and the stockbroker, banker, or member of a Discount House, advancing part or the whole of the purchase-money, charges interest on the outstanding balances, such interest (not being "annual interest") is payable in full, without deduction of tax. The borrower, however, can show it as a deduction in arriving at a statement of his total income, and by obtaining a certificate from the lender showing the amount of such interest, can obtain repayment of the full tax on it.

*Position of Foreign Residents and Visitors to
this Country.*

A person residing in this country has to pay tax, broadly speaking, on his entire income; but one living abroad—and in this connection the Isle of Man and the Channel Islands are considered as "abroad"—is more favourably treated. A person living out of this country is wholly exempt from British Income Tax on his foreign income, and is also exempt as regards interest on certain British Government Stocks—viz., 5 per cent. War Loans and Bonds, 4 per cent. War Loans and Bonds (including Funding Loan and Victory Bonds)—and also some Exchequer Bonds. To these may be added interest on Treasury Bills, and interest on

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issues in the United States by Local Authorities in this country (if sanctioned by the Treasury).

He is also exempt from tax on interest or dividends from foreign or Colonial sources, which may be payable in this country.

Persons of foreign nationality, living abroad, must pay Income Tax in full on all other income arising in this country, but a British subject living abroad, and drawing any income from the United Kingdom, may obtain a certain further measure of relief.

First, the entire income has to be shown, and the tax calculated that would be payable did he live here. A proportion of this is taken in the same ratio that his income *liable to British tax* bears to his total income, and any tax paid in excess of this proportion is repaid.

For example, a married man with one child lives in Jersey. He receives £300 from British investments and has £100 a year from property abroad. Were he living in England he would be taxed on £400 as follows :

Income...	...	...	...	£400
Less marriage allowance	...		£225	
Less children's allowance	...		36	
			<u>261</u>	
				£139

Tax at 3s. = £20 17s. (1921-22 rate).

He has paid £90 by deduction from his dividends and would recover £69 3s.

But as a resident abroad, he will be liable to pay such proportion of the £20 17s. as his British income bears to his total income—that is,

three-fourths, or £15 12s. 9d., and will reclaim £74 7s. 3d. Under the old law (before the year 1920-21) his claim would have been :

Total income from all sources £400, entitling him to an abatement of £120, and to pay tax at 3s. in the £.

The <i>assessable</i> income would have been ...	£300
Deduct abatement ...	£120
Wife ...	50
Child ...	40
	<hr/>
	210
	<hr/>
	£90

Tax at 3s. = £13 10s. (1919-20 rate).

And the sum repayable would therefore be £76 10s.

As these claims are a little more complicated than most, the following (which is an actual case) may be helpful.

During the year 1921-22 Mr. A. B. was employed abroad, under a Colonial Government Department, at a salary of £420. He had no other income, but his wife drew £218 from a sleeping partnership in this country. She also received £108 interest on War Loan, which is paid in full. She also drew £8 from a small holding of South Australian Stock, and £95 from shares in British companies. Total joint income, £849.

If Mr. A. B. had lived in England, the liability would have been as follows :

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		£	s.	d.
Liability as an English resident on	...	849	0	0
Less allowance for "earned income"				
(one-tenth of salary)	...	42	0	0
		807	0	0
Less personal allowance, £225	...	225	0	0
	...	582	0	0
£225 at 3s.	...	33	15	0
357 at 6s.	...	107	2	0
£582	Total English liability...	140	17	0

The salary was earned abroad, and was not taxable here. The Australian interest was exempt, as stated above. The War Loan interest would also be exempt, had it paid tax, and the portion remaining—viz., the sleeping partnership and the British dividends—was the only part to which any liability attached. These amount to £313, and therefore $\frac{313}{849}$ of £140 17s. is the real liability—say, £51 18s. As tax had already been paid on £95 on the British shares, and on £8 foreign securities, amounting to £30 18s., a further sum of £21 was due to the Revenue, which was charged against the sleeping partnership.

When a person comes to this country on a visit he incurs no fresh liability to Income Tax unless he remains here, either at one time or at several times, for longer than six months during the same fiscal year (April 6th to April 5th following). But if, as frequently happens, a man's wife remains in England, living on his remittances, if he sets foot in this country, even for one day, he is considered a British

resident, and becomes liable to pay tax accordingly for that year. If he is absent during the whole year, no liability attaches to his remittances if made from pay. But if they are derived from securities, or foreign trade, or rents, such remittances would be taxable.

It should be noticed that foreign residence means permanent foreign residence. If a person habitually living in this country goes abroad—say, for a couple of years, even giving up his house for the time being, but with the intention of returning some time—it is probable that the taxing authorities would still consider him a British resident, and assess him accordingly. The Act is worded rather loosely. The exemption of foreign residents from tax on foreign securities or possessions is conditional upon their being “not ordinarily resident” in the United Kingdom; but the Act of 1920, which gave the “proportionate” relief illustrated above, speaks of “any individual who is not resident” here.

The subject is a difficult one, and some of the provisions operate very harshly. It has seemed advisable to go into the matter at some length, owing to the number of British subjects who have gone abroad of late years to escape the crushing burden of taxation. Such persons may easily put forward a claim which may result, not in a repayment as hoped, but in a demand for further tax!

SCHEDULE E.

Under the present law, as altered by the 1922-23 legislation, all employments are chargeable, under this schedule, on the actual earnings of the same year. The term earnings means any pecuniary remuneration whatever arising from the employment. A clergyman's Easter offerings; a waiter's tips; a bonus; even, it would seem, Christmas Boxes, if habitually given to employés, all would be returnable.

If the estimate is not realised—for instance, if a person leave his employment, and be out of work for a time, the charge will be reduced to the actual earnings. Any expenses incidental to the work may be claimed as a deduction, but it must be noted that the cost of a season ticket between house and work is not allowable.

Manual workmen, however, are treated more leniently. Besides cost of tools, overalls, etc., they can deduct the cost of fares to and from work, and the cost of lodging away from home.

CHAPTER III

SPECIAL ALLOWANCES

THE last chapter showed the principles on which a return should be prepared for assessment. It may now be considered how these returns may be rectified where the estimate is not realised. It has to be borne in mind that the returns are usually required to be made in April or May for the financial year then beginning, so that in no such case can the actual profit for that year be definitely stated. The concessions under Schedule A and B have already been stated, so this chapter may be confined to Schedules D and E.

SCHEDULE D.

1. *New Businesses*.—For the first three years of a business the actual profit or loss of each year, when ascertained, should be submitted to the Inspector of Taxes. If the profits have not realised the amount assessed, the excess will be remitted and tax repaid if necessary.

After the first three years, the average is taken yearly of the three last years, and as a rule cannot be disturbed on the ground of overestimate.

2. If owing to some *specific cause* apart from the war, the business profits fall off, the person assessed can appeal for a revision of the charge, and a reduction to

the actual profit earned. This has to be read somewhat carefully. The Act quotes as "specific causes" death, bankruptcy, or stoppage of business. It would therefore seem that bad trade generally would not be a "specific cause," but probably sickness, or a local strike, or a fire on the premises, would come within the scope of the concession.

Such a claim must be made within three months after the end of the year.

3. *Cessation of Business*.—As in the case of a new business, the actual profit of the year or part of the year during which business was carried on can be taken and a revision of the assessment claimed accordingly, together with repayment of any overpayment if the actual profits of the three previous years did not reach the total sum assessed for those years.

4. A person who actually loses money in trade, employment, or vocation, or in the occupation of lands for husbandry, or woodlands assessed under Schedule D, can claim, within six months after the end of the year of assessment, to set off the loss against the rest of his income. This will give an immediate benefit; but the claim may work against the taxpayer in the end. The section goes on to say that, in future years, the loss shall not be taken into account in striking the average. The matter should be very carefully thought over before any claim is made in such cases, lest larger sums be lost; particularly in the case of Super-Tax payers.

All these claims should be put in at the earliest possible date. Undue delay in preferring them will seriously prejudice the claimant.

5. *Depreciation of Machinery and Plant.*—This allowance does not affect the greater number of trade assessments. As, however, there are exceptions to the rule, it may be said that it is recognised that, however well a machine is kept up, a time comes when it has to be scrapped. In some cases the cost of renewing it would swallow up the year's profit, or perhaps several years', so to prevent such violent fluctuations in the assessment, a percentage of its cost is allowed annually, the amount allowed one year being deducted from the value on which the next year's allowance is estimated. Particular trades are given relief at the rate agreed upon by the Commissioners for the places where these are chiefly located, and the deduction is usually arranged by the Accountant who makes out the return, after consultation with the Inspector.

6. When the renewal of a worn-out machine takes place, the cost of the new one is charged, less the sum realised by sale of the old one and any depreciation allowed on it in the past. The capital cost of *additional* machinery or plant is not allowed in any case, though a claim may be made for depreciation as in the case of the old machinery.

SCHEDULE E.

The only probable claim in this case is on account of cessation of work. If a Town Clerk, for example, retires without pension at midsummer, he will be liable

for one quarter of the year's assessment, and no more, and this does not require elaboration.

Clergymen and all ministers of religion, besides their professional expenses, may deduct part of the assessed value of their residence, not exceeding one-eighth, whether they occupy it rent free or not, it being recognised that their professional work requires the use of at least one room for callers, study, etc. This allowance may be claimed under any Schedule, but was not given till the year 1918-19, so that it cannot be reclaimed for any year before that.

CHAPTER IV

THE PRESENT INCOME TAX

THE recommendations of the Royal Commission were adopted practically without alteration in the 1920 Finance Act, though certain important matters were left over for a later Act. The principal alterations in the old law were as follows :

The basis of "taxable" income was put on a new footing.

Super-Tax was increased.

Abatements and wife's allowances were abolished, and replaced by flat rates of "personal allowances."

One rate of tax was chargeable after the first £225 of "taxable" income.

The right of persons living abroad to relief was modified. (See p. 40.)

So was life assurance relief.

Allowance was made for Dominion Income Tax already paid on income arising abroad.

In place of varying rates of tax (see p. 69) one uniform rate was imposed, but when the income has been assessed a deduction of one-tenth is made from the earned part, up to a limit of £2,000 income. Beyond that sum no further reduction is made, so that £200 is the utmost deductible on this account. From the balance of income, a personal allowance is

made of £135 to single persons or widowers, etc., and of £225 to married persons, together with the allowances as given below for children, housekeepers, or dependents, and no tax is payable to this extent. The resulting balance, if any, is called "taxable income," and the first £225 of this is charged in all cases at half the standard rate, and the remainder at the full rate. The "standard rate" for 1922-23 is 5s. in the £. For the two years preceding it was 6s.

The following instances will show how the new scale works out, the income being taken at £600 throughout :

A.—SINGLE MAN. INCOME ALL EARNED.					B.—MARRIED MAN. INCOME ALL EARNED.				
		£	s.	d.			£	s.	d.
Income	...	600	0	0	Income	...	600	0	0
Deduct one-tenth	...	60	0	0	Deduct one-tenth	...	60	0	0
		540	0	0			540	0	0
Deduct personal allow- ance	...	135	0	0	Deduct personal allow- ance	...	225	0	0
Taxable income	...	405	0	0	Taxable income	...	315	0	0
£225 at 2s. 6d.	...	28	2	6	£225 at 2s. 6d.	...	28	2	6
£180 at 5s.	...	45	0	0	£ 90 at 5s.	...	22	10	0
£405	tax payable	73	2	6	£315	tax payable	50	12	6

C.—SINGLE MAN. INCOME ALL UNEARNED.					D.—MARRIED MAN. INCOME ALL UNEARNED.				
		£	s.	d.			£	s.	d.
Income	...	600	0	0	Income	...	600	0	0
Deduct personal allow- ance	...	135	0	0	Deduct personal allow- ance	...	225	0	0
Taxable income	...	465	0	0	Taxable income	...	375	0	0
£225 at 2s. 6d.	...	28	2	6	£225 at 2s. 6d.	...	28	2	6
£240 at 5s.	...	60	0	0	£150 at 5s.	...	37	10	0
£465	tax payable	88	2	6	£375	tax payable	65	12	6

E.—SINGLE MAN. EARNED INCOME, £400; UNEARNED, £200.

	£	s.	d.
Earned income ...	400	0	0
Less one-tenth ...	40	0	0
	<u>360</u>	<u>0</u>	<u>0</u>
Unearned income ...	200	0	0
	<u>560</u>	<u>0</u>	<u>0</u>
Less personal allowance ...	135	0	0
Taxable income ...	<u>425</u>	<u>0</u>	<u>0</u>
£225 at 2s. 6d. ...	28	2	6
£200 at 5s. ...	50	0	0
£425 tax payable	<u>78</u>	<u>2</u>	<u>6</u>

F.—MARRIED MAN. EARNED INCOME, £400; UNEARNED, £200.

	£	s.	d.
Earned income ...	400	0	0
Less one-tenth ...	40	0	0
	<u>360</u>	<u>0</u>	<u>0</u>
Unearned income ...	200	0	0
	<u>560</u>	<u>0</u>	<u>0</u>
Less personal allowance ...	225	0	0
Taxable income ...	<u>335</u>	<u>0</u>	<u>0</u>
£225 at 2s. 6d. ...	28	2	6
£110 at 5s. ...	27	10	0
£335 tax payable	<u>55</u>	<u>12</u>	<u>6</u>

G.—MARRIED MAN WITH THREE CHILDREN. INCOME ALL EARNED.

	£	s.	d.
Income ...	600	0	0
Less one-tenth ...	60	0	0
	<u>540</u>	<u>0</u>	<u>0</u>
Deduct personal allowance ... £225			
Deduct children's allowance (36 + 27 + 27) ... £90			
	<u>315</u>	<u>0</u>	<u>0</u>
Taxable income ...	<u>225</u>	<u>0</u>	<u>0</u>
£225 at 2s. 6d. ...	28	2	6

H.—SAME. INCOME ALL UNEARNED.

	£	s.	d.
Income ...	600	0	0
Less personal allowance ... £225			
Less children's allowance ... £90			
	<u>315</u>	<u>0</u>	<u>0</u>
Taxable income ...	<u>285</u>	<u>0</u>	<u>0</u>
£225 at 2s. 6d. ...	28	2	6
£ 60 at 5s. ...	15	0	0
£285 tax payable	<u>43</u>	<u>2</u>	<u>6</u>

I.—SAME. EARNED INCOME, £400; UNEARNED, £200.

	£	s.	d.
Earned income ...	400	0	0
Less one-tenth ...	40	0	0
	<u>360</u>	<u>0</u>	<u>0</u>
Unearned income ...	200	0	0
	<u>560</u>	<u>0</u>	<u>0</u>
Carried forward	560	0	0

Brought forward	£560	0	0
Deduct personal allowance ... £225			
Deduct children's allowance ... £90			
	<u>315</u>	<u>0</u>	<u>0</u>
Taxable income ...	<u>245</u>	<u>0</u>	<u>0</u>
£225 at 2s. 6d. ...	28	2	6
£ 20 at 5s. ...	5	0	0
£245 tax payable	<u>33</u>	<u>2</u>	<u>6</u>

Life Insurance.—The allowance for this is not treated as a deduction in arriving at the taxable income, but is given at special rates afterwards. If the *total personal income* does not exceed £1,000 the allowance is given at half the standard rate, or 2s. 6d. in the £. If the total income is over £1,000 and not over £2,000, at 3s. 9d. in the £; but if it exceed £2,000 then the allowance is made at 5s. in the £.

Taken by itself this would lead to the anomaly that of two persons paying the same premium, the one with the smaller income might pay more tax than the other, thus :

A. Unearned income, £999 :

	£	s.	d.
Tax payable, if married ...	165	7	6
Less insurance, say £150 at 2s. 6d. ...	18	15	0
	<u>146</u>	<u>12</u>	<u>6</u>

B. Unearned income, £1,001 :

	£	s.	d.
Tax payable at "married" rate ...	165	17	6
Less insurance, £150 at 3s. 9d. ...	28	2	6
	<u>137</u>	<u>15</u>	<u>0</u>

To remedy this A can claim in addition :

	£	s.	d.
Difference in rate of tax (3s. 9d. - 2s. 6d.)			
on his premium ...	9	7	6
Less full tax on difference between his actual income, £999, and the point where the rate of tax changes (here £1,000).			
£1 at 5s. ...		5	0
	<u>9</u>	<u>2</u>	<u>6</u>

He therefore is liable on :

			£	s.	d.
Apparent liability	...	...	146	12	6
Less concession ...	...	...	9	2	6
			<hr/>		
			137	10	0
			<hr/>		

Compulsory deductions from salary, etc., towards provision for children, or for a deferred annuity to the widow, are admissible, even if not made under the authority of an Act of Parliament.

A premium on a policy taken out by a wife from her separate income, either on her own life or that of her husband, will be allowed as a deduction.

The WIFE'S ALLOWANCE has been abolished, but in its place the personal allowance of a married man is £90 more than that of a single man. Moreover, if the wife has any earned income of her own, the deduction of £225 is increased by $\frac{9}{10}$ of the wife's earned income, up to a maximum of £45. This, in effect, gives £270 personal allowance, as if the parties were not married. If the parties are separated, but the husband has to maintain the wife, the full £225 can be claimed.

WIDOWERS WITH CHILDREN are allowed £45 for a female acting as housekeeper. If there are no children the allowance is not now given, though it was in 1919.

UNMARRIED PERSONS supporting younger members of the family get £45 allowance for a housekeeper, being a relative, under the same conditions as in 1919. (*Vide* Chapter VI.)

Note.—The allowances for a housekeeper are not given where a wife's allowance has been claimed for her by her husband.

CHILDREN'S ALLOWANCES are now : First child, £36 ; others, £27 each. The child must not have an income of its own exceeding £40, irrespective of scholarships or similar grants, which are not considered as income.

DEPENDENTS.—£25 as before. This allowance is extended to cover the person's mother or mother-in-law, whether incapacitated or not.

In this case, however, the person supported must not have a personal income of over £50.

£25 is allowed for a daughter living at home as housekeeper to an aged or infirm parent.

Note.—The above allowances are all taken off before arriving at the "taxable income."

COLONIAL INCOME TAX.—When a person has already paid Dominion Income Tax on income also assessable in this country he shall be relieved as follows :

- (a) If the Dominion rate of tax does not exceed half the effective rate at which the person is liable in this country (*including Super-Tax*) the former shall be allowed entirely.
- (b) In any other case, half the proper British rate (*including Super-Tax*) shall be allowed, with the following proviso :

"Sect. 27. (3) Where by reason of the allowance of relief under this section the rate of United

Kingdom income tax deducted from or paid in respect of any part of the income of any individual is less than the standard rate, and the rate of the relief so allowed is greater than the rate appropriate to the case of that individual, such an adjustment shall be made in allowing to that individual any relief to which he may be entitled under the provisions of this Part of this Act relating to the rate of tax on the first two hundred and twenty-five pounds of taxable income as may be necessary to secure that the amount of United Kingdom income tax finally paid or borne by him shall be equal to the amount which would have been paid or borne if the relief under this section had in the first instance been given at the rate appropriate to his case."

Example.—A single man receiving his entire income of £500 from investments in a Colonial Government Stock should pay British tax amounting to £63 2s. 6d., as shown in Chapter IV. His "TAXABLE INCOME" is, of course, £365, and the "effective rate" (*i.e.*, $£63\ 2s.\ 6d. \div 365$) on this is about 3s. 5½d. in the £. Now, if the Colonial tax was 1s. in the £, this is less than half the "effective rate" here, and £18 5s. would be repaid (being 1s. in the £ on £365). If, however, the Colonial tax is 3s. in the £, this is 1s. 3¼d. more than half the effective British tax, and therefore he should be repaid £31 11s. 1d. (tax on £365 at 1s. 8¾d.).

Where there is no reciprocal arrangement between the British Government and the Colonial Government, the balance remaining should be deducted from the "income" returnable here.

As before stated, any return of Colonial income should give the gross sum before deduction of Colonial income tax, except in the case last mentioned.

Deduction on this ground is often claimed by the companies concerned, and the dividend warrants show tax deducted at odd rates in consequence. No claim for refund of double tax can then be made by the shareholder, and he should further note that the reduced rate of tax paid will affect the allowance given to him in his capacity of British resident under the section quoted on p. 55.

For instance, suppose a man has an income of £500 a year, derived from shares. Normally, he would recover £61 17s. 6d., if a single man. But £100 comes from a South African mine, and the Company has made the claim for allowance, which has been allowed to the extent of 1s. 8d. in the £. The Company has, therefore, paid British tax only at 3s. 4d., and deducts tax at that rate from its dividend warrants.

It will now be seen that the shareholder has paid only £16 13s. 4d. English tax on this item, instead of £25. The Inland Revenue therefore repays the personal allowance of £61 17s. 6d., less the £8 6s. 8d. underpaid by the shareholder on his mining shares.

In calculating liabilities for the years 1920-21 and 1921-22, the standard rate of tax should be taken at 6s. and the half rate at 3s.

CHAPTER V

HOW TO OBTAIN CORRECTION OR REPAYMENT OF AN OVERCHARGE

FOR the years 1920-21 and 1921-22 the standard rate of tax was 6s., and this was reduced for 1922-23 to 5s. Claims for the former years will, *cæteris paribus*, exceed those for 1922-23 by one-fifth of the latter.

The first, and generally the last, step is to put yourself in communication with the Inspector of Taxes. It is only in exceptional cases that the appellant has to come before the Commissioners in person. The fact is that though all allowances or relief are technically given by the Commissioners of Taxes, in actual work this is done by the Inspector. Only when the taxpayer does not accept the Inspector's ruling is it necessary to go before the Commissioners. The decision of the latter on questions of *fact* is final, but on points of *law* an appeal lies from them to the High Court.

Persons living abroad should apply direct to the Chief Inspector of Taxes, 86, Strand, W.C., if they propose making a repayment claim.

Questions affecting the *amount of your business profit* must, as a rule, be settled immediately you get the notice saying what it has been assessed at. This is a blue paper, usually sent out in the autumn, and

must not be confused with the demand note sent in about January. It is only in the special cases mentioned above (Chapter III.) that an assessment on business profits can be questioned after the appeals have been heard against the general assessments for the parish: but Life Assurance premiums can be claimed before the tax is paid, on production of the receipts to the Inspector.

Building Society Interest on equitable mortgages should be allowed before payment of the Property Tax, as shown in Chapter II., p. 21. (Interest on Bank loans for *trade purposes* must be taken off in making up the return. It is a trade expense.)

All other claims necessitate the filling up of forms.

These forms vary from year to year, but the first step is to call at the Inspector's office, or write to him stating the nature of the required claim, and ask for the proper form.

Nearly all of these forms require a declaration showing the amount of your entire income. This has to be given *as assessed*, not as you think it, and the following plan should be adopted:

1. *Property*.—Give the address of the property. If the houses bear street numbers, give these in preference to fancy names for the houses. It will help to identify them, and save everyone time and letter-writing.

Set down the annual value assessed; then deduct the period for which it was void, if any, and the proportion of the year's rent lost through bad tenants. Carry out the net amount, and against it (if a repayment claim) the tax paid, as follows:

	<i>Income.</i>			<i>Tax paid.</i>		
	£	s.	d.	£	s.	d.
24, Green Street, Banbury ..	25	0	0*	7	10	0
26, Do., void from Sept. to Xmas	18	15	0*	5	12	6

Enter at the bottom of the claim in the space provided particulars of the ground rent and mortgage, if any, so as to ensure a proper deduction from your gross income.

2. *Occupation of Lands.*—Enter the assessed value (Schedule B), and, if needful, the tax paid. If you have already appealed against it with success, give the adjusted figures.

3. *Interest.*—Separate the items of your investments into taxed and untaxed. Some of the recent Government issues (War Loan, War Bonds, Exchequer Bonds) are untaxed, so is Post Office Savings Bank Interest, and very small dividends from Consols, etc., but the majority of investments pay tax before the interest reaches you. You may take it that all dividends from Companies do, or any interest received through a bank except interest on your deposit account and on the War Issues above mentioned, but there may be some interest on private loans that comes to you in full. Show this as untaxed, and give the amount received in the previous year. It is the borrower's business to deduct the tax, and if he does not he has to bear the loss, but this does not relieve you from liability to pay on it.

Most of the Dividend Warrants and all Bank Certificates show the amount of tax deducted. Keep

* These houses are supposed to be let for £30 yearly; one-sixth is deducted for repairs. (*Vide* p. 19.)

TO OBTAIN REPAYMENT OF OVERCHARGE 61

all these Certificates, etc., carefully, in case a repayment claim is necessary. Companies do not like issuing duplicates. Some absolutely refuse to do so, and some others charge a fee in each case.

Dividends paid "free of Income Tax" are the *net* sum after deduction of tax by the Company. Multiply the dividend by 20 and divide by 20 less the rate of tax (in shillings) in force for the period covered by the dividend—*e.g.*, £70 "free of tax" for 1921, when the tax was 6s. in the £, represents $\frac{£70 \times 20}{14} = £100$, so you set down—income, £100, tax paid, £30.

The same principle is adopted in showing interest on the 4 per cent. War Loan issued "Tax Compounded"—*i.e.*, exempt from tax. Thus, £4 so received must be shown as £5 14s. 3d., *but no tax will be repaid on this.*

If your income includes taxed dividends on Government Stock registered in the name of the owner, and you are claiming repayment, you will have to state the full title of the stock, the name or names in which it stands, the amount of stock held, whether it stands by itself or as part of a larger sum, and the amount and date of each dividend. No vouchers are needed.* The information given enables your statement to be checked in the books of the Bank of England. *You need not give these details unless you are claiming repayment.* For instance, in the case of War Loan Interest which is

* In the year 1922 the Bank of England began to give vouchers on payment of dividends. The above remarks apply to previous dates. After 1921, the vouchers alone are needed. No further description is necessary.

paid in full no such particulars need be given in any case, as they are not taxed before payment. If, however, the dividends are payable to bearer, get a certificate from the Bank, and annex this when claiming repayment. For other dividends than those on Government stock give only the name of the stock and the income from it. If a repayment claim, show the tax paid.

Untaxed interest should be set down as the figure received in the previous year, *not the year for which the claim is made.*

Persons receiving periodical payments from others, such as ground rents, mortgage interest, rent charges, annuities, and the like, should ask the payer to send a certificate of deduction of tax with each payment. A form for this purpose (No. 185) can be obtained at any tax office.

4. *Wife's Income.*—Follow exactly the same lines as if it were your own.

5. *Income from Trade, Profession, Employment, etc.*—Give the *assessed* value. Any question as to the correctness of the amount assessed should have been settled before.

6. *Miscellaneous Income.*—A man with a small income often adds to it in his spare time. He may do teaching in the evening; or keep tradesmen's books; and his wife may have a boarder or two. Profits from these and similar sources should all be shown.

Fill in details for Insurance, Wife, Children, Dependents', or Widower's Allowance.

This form, supported by vouchers in the case of repayment claims, will show whether you are entitled

to personal allowance, total exemption, abatement, wife, children, widower's, or dependents' allowances, life assurance, or claim for assessment at a lower rate of tax than you have been charged.

The preparation of a claim for any year after 1919-20 is much easier than for former years. The income is shown in detail in the usual way, with the ground rents, etc., payable out of it. Tax is payable on the latter, whatever the claimant's own income may be. Such part as remains in his own possession—that is, the net total—is then dealt with. First, the allowances to which the claimant is entitled are added together—viz., personal allowance of £135 or £225, as the case may be, children's allowance, dependents' allowance, and the one-tenth given on all earned incomes. After deducting these, what is left is called "taxable" income. The first £225 of this is charged at half the standard rate, and all the rest at the full standard rate. In short, every person pays tax on his own income, and on such income as he pays away to anyone else. In the latter case, he stops the tax from it, and therefore pays, net, only his own share. This explanation may seem superfluous, but the writer's experience shows that no point is more misunderstood.

Special Note as to Repayment Claims for Years after 1919-20.—As the personal allowances, etc., are in the nature of "flat" rates, and there is only one standard rate of tax, it is no longer necessary to produce vouchers for the whole income. They need only be produced to an extent equal to, or greater than, the amount on which repayment is sought.

It has been said already that every British taxpayer is entitled to *some* relief, and, of course, nearly everyone in receipt of earned income is called upon to make a return with irritating frequency; besides which, the zeal of the Inspectors causes most persons living in houses of £20 annual value or upwards to be served now and then with the formidable buff form No. 11. In consequence, most of us have frequent opportunities of declaring our income. These returns are carefully examined, and any apparent liability is assessed. If the return discloses earned income, or untaxed income, such as War Loan interest, the allowances applicable to the case, as disclosed by the fourth page of the form, are taken off the amounts so liable, and any balance, where possible, from the house or landed property owned by the claimant. When the latter proceeds to make out his claim for repayment, he therefore finds that a part of his income has not paid tax at all. In many cases he has no claim to make. All the allowances to which he is entitled have been already made. The writer advises his readers to work out their individual liability and check this with the tax that has actually been paid, less the tax on the ground rents, interest, etc., before making any claim.

An example may help readers to appreciate this point. Mr. F. B. is the Secretary of a Public Company, and, as usual, is assessed for his salary under Schedule E. He received for the year 1920-21 £108 in dividends, less Income Tax, £32 8s.; dividends paid "free of tax" amount-

TO OBTAIN REPAYMENT OF OVERCHARGE 65

ing to £77; War Loan Interest, £105, paid in full; owned two houses, one freehold and let for £60, the other occupied by himself. This house was leasehold, the ground rent being £15 per annum, and there was also a mortgage of £1,000 at $5\frac{1}{2}$ per cent.

His statement of income for 1921-22 will stand thus :

	£	s.	d.
Salary	600	0	0
Taxed dividends	218	0	0
	£		
Viz., £77 free of tax, equal to ...	110		
Others, paid less tax ...	108		
	218		
Untaxed interest (for previous year) ...	105	0	0
Own house (assessed value) ...	83	6	0
House let at £60, less one-sixth for repairs	50	0	0
	1,056	6	0
Deduct annual charges—			
	£		
Viz., Ground rent ...	15		
Mortgage interest ...	55		
	—	70	0 0
		986	6 0

He was married, had three children, and paid £50 premium on his Insurance policy. He was therefore entitled to the following deductions :

	£	s.	d.
Marriage allowance	225	0	0
Children's allowance	90	0	0
Earned Income, one-tenth ...	60	0	0
	375	0	0
Leaving his own taxable income at ...	611	6	0
£225 at 3s.	33	15	0
£386 6s. at 6s.	115	17	9
Tax payable by him ...	149	12	9

From this comes, as a separate allowance, the Insurance premium of £50. As his own total income was under £1,000, this was allowed at 3s., equal to £7 10s. His real *personal* liability was, then, £142 2s. 9d. He must also pay tax on the ground rent and interest, amounting to £21, but as he recouped himself by deducting 6s. from every £1 so paid he was not out of pocket.

Now, we will assume that he made his return, and that it was duly dealt with. At the end of the year 1921-22 he reckoned up what he had paid, as follows:

			£	s.	d.
On dividends	...	...	65	8	0
„ salary	...	...	57	15	0
„ own house	...	...	24	19	9
„ house let	...	...	15	0	0
			163	2	9

of which he had already recovered £21, as above.

He had therefore been properly assessed, and has no claim to make. Had all his income been taxed in full, his War Loan Interest would have borne tax amounting to £31 10s., and his salary would have paid £180! All the allowances have been made from these two items.

In the year 1918 a distinct step was taken, wherever possible, by charging property under Schedule A at the proper rate. On referring to a demand note, it will be seen that in many cases the ground rent and mortgage interest only is charged at the full rate, the remainder being charged at the half rate. This, of course, removes the necessity for repayment claims in many instances.

TO OBTAIN REPAYMENT OF OVERCHARGE 67

As tax on invested income is in nearly all cases deducted at the highest rate, while the taxpayer is really liable to pay less, owing to the operation of the various allowances, it follows that he is overcharged on this part of his income. If he has income directly assessable the overcharge is, as far as possible, set off against the latter, but if this is insufficient a repayment claim is necessary. See Case 3, p. 91. In this instance, M. G.'s real liability for 1919 was £43 10s., but his dividends had already paid on £120 at 6s. = £36, so that only £7 10s. was due to the Revenue. M. G.'s liability on his business (taken by itself) was £21, and in the ordinary course the overcharge on his dividends would be deducted from this £21, and the demand note would be for £7 10s. only.

As this point appears to be very imperfectly understood by the public, it may be stated that the taxpayer should reckon what tax is payable on his entire income after deduction of the various allowances, and then see what tax has been paid on it, and reclaim any excess payment. His dividends will have paid too much tax, and his earned income or houses perhaps less than the proportionate sum, but the aggregate is what has to be considered.

CHAPTER VI

GENERAL ALLOWANCES PRIOR TO 1920-21

THIS chapter applies only to the years ending April 5th, 1920. It is therefore of special importance to persons contemplating repayment claims. The allowances for 1920-21 and onward will be found dealt with in Chapters IV. and V.

Repayment claims are not, as a rule, admitted unless made within three years from the end of the year to which they relate, but a concession has been made allowing one to be made for six years in special circumstances—for instance, where the claimant was on active service.

Such cases are necessarily of rare occurrence, and, so far as the general public are concerned, no claim can be made farther back than for 1919-20. In that year the tax payable was calculated on entirely different lines from those now in force. Persons making claims for past years will therefore work on the lines indicated in this chapter only for the year 1919-20, or, *in special cases*, for earlier years. As regards the year 1920-21 and later years, the calculations should follow the rules laid down in Chapters IV. and V.

ALLOWANCES UNDER OLD LAW 69

RATES OF TAX PAYABLE FOR THE YEARS 1916-17 TO
1919-20, WHEN THE LAW WAS CHANGED.

	1916-17 and 1917-18.	1918-19.	1919-20.
For incomes not over £130 ..	Exempt	Exempt	Exempt
For incomes from £130 to £500 ..	Earned, 2/3 Unearned, 3/-	Earned, 2/3 Unearned, 3/-	Earned, 2/3 Unearned, 3/-
For incomes from £500 to £1,000	Earned, 2/6 Unearned, 3/6	Earned, 3/- Unearned, 3/9	Earned, 3/- Unearned, 3/9
For incomes from £1,000 to £1,500	Earned, 3/- Unearned, 4/-	Earned, 3/9 Unearned, 4/6	Earned, 3/9 Unearned, 4/6
For incomes from £1,500 to £2,000	Earned, 3/8 Unearned, 4/6	Earned, 4/6 Unearned, 5/3	Earned, 4/6 Unearned, 5/3
For incomes from £2,000 to £2,500	Earned, 4/4 Unearned, 5/-	Earned, 5/3 Unearned, 6/-	Earned, 5/3 Unearned, 6/-
Exceeding £2,500	Earned, 5/- Unearned, 5/-	Earned, 6/- Unearned, 6/-	Earned, 6/- Unearned, 6/-

Large incomes paid also Super-Tax as follows :

1916-17	exceeding	£3,000
1917-18	„	3,000
1918-19	„	2,500
1919-20	„	2,500

For these years “earned income” (*i.e.*, derived by an *individual* from a profession, trade, employment, or pension, and as regards clergymen and religious ministers, their official residences occupied rent free) and “unearned income” (which included the profits of public companies, dividends, interest, rent of real estate, or sleeping partnerships) were

charged at different rates of tax, and in addition to this differentiation the rate of tax ultimately payable varied according to the person's total income, small incomes paying a comparatively low rate, as shown by Table on p. 69.

In addition to the lower rate of tax payable on the smaller incomes, a number of special allowances were made where applicable. These allowances, in the case of civilians, were invariably first taken off the earned part of the income as far as possible.

1. Incomes not exceeding £130 in all were wholly EXEMPT, and any tax paid is reclaimable.

2. Incomes over £130 but not over £400 were given an ABATEMENT of £120 on which no tax was payable.

3. Incomes over £400 but not over £600 were given an ABATEMENT of £100 on which no tax was payable.

4. Incomes over £600 but not over £700 were given an ABATEMENT of £70 on which no tax was payable.

Partners in business might, if necessary, reclaim "abatement" on their shares, though the assessment on the business was made in one sum.

For these years also, married couples, both in receipt of business earnings, could make separate returns, and if their united incomes did not exceed £500 *from all sources*, each got full exemption or abatement. If it exceeded £500, only one abatement was given, divisible *pro rata* between them. The former concession was withdrawn in 1920.

5. Persons whose entire incomes did not exceed

£800 were entitled, in addition to the foregoing, to the following allowances from their assessed incomes :

For a WIFE, living with the taxpayer : 1916 and 1917, nil ; 1918, £25 ; 1919, £50.

For CHILDREN (including stepchildren or adopted children) not over sixteen on April 6th in the year : 1916 and 1917-18, £25 (given for those years only if the parents' income did not exceed £700); 1918-19, £25 (the allowance was extended also to persons whose incomes were between £800 and £1,000, in the case of any children over two in number); 1919-20, £40 for the first child, £25 for others (the allowance was also extended to meet the case of children over sixteen, but still receiving full-time education.)

For DEPENDENTS. For an infirm or old relative of the taxpayer or his wife, maintained by the former, and not having a separate income exceeding £25 : £25 for 1918-19 and 1919-20. It was not given for 1917-18 or 1916-17.

For HOUSEKEEPER : 1916-17 and 1917-18, no allowance ; 1918-19, £25 to a widower in respect of a female relative of himself or his deceased wife, living with him to take charge of his children under sixteen ; 1919-20, £50, even if there were no children (the allowance was also extended to unmarried

men maintaining younger brothers or sisters, and employing a female relative to look after them).

6. *Life Insurance Premiums*.—The conditions for the years 1916–17 to 1919–20 were :

The premium must not exceed one-sixth of the chargeable income.

The Insurance Company must carry on business in the United Kingdom.

Policies taken out with registered Friendly Societies are also eligible, and deferred annuities contracted for with the National Debt Commissioners, and also compulsory deductions from salary towards an Insurance Fund to provide a sum on death or a deferred annuity to the widow, provided the deduction be made under the authority of an Act of Parliament.

The premium paid must not exceed 7 per cent. of the sum insured at death, apart from bonus.

Premiums on deferred annuities will not be allowed to a greater extent than £100 per annum.

Policies taken out after June 22nd, 1916, will not be allowed for at a greater rate than 3s. in the £, whatever the income may be, and *must* provide for a capital payment at death.

“Industrial” Policies on which premiums are paid weekly or monthly to Friendly Societies require the secretary’s certificate showing the total payment for the year.

As a rule, no difficulty will arise on these points. Very few persons are insured to the full limit, and the great majority of policies at present come within the general allowance.

7. *Naval and Military Service* conferred special privileges, and this extended to merchant seamen serving, and to work *abroad* under the British Red Cross and similar bodies.

Any such person having less than £300 total income paid only at 9d. in the £ on his pay, with an abatement of £160. If his income were not over £160 he was wholly exempt.

If his income were between £300 and £500, he paid on his official pay at 1s. 3d. in the £; from £500 to £1,000 at 1s. 9d.; and thence every increase of £500 carried with it an increase of tax by 6d. in the £, till incomes over £2,500 paid 3s. 6d. in the £.

These special rates of tax applied only to Service pay, and not to any other income, earned or unearned. The allowances, however, were made from the other income first, which was a concession in itself. Other persons got the allowances from the less highly taxed income, and paid as far as the Revenue could make them at the higher rates. This concession ceased with the year 1919-20. Wound pensions, disability pensions, and war gratuities are not liable to Income Tax. Any tax that may have been paid in the past on these will be refunded on application.

8. As the rate of tax increased by jumps of 9d. in the £ at certain stages (p. 69), it followed that at these stages a very small difference of income made a large difference in the tax. Thus an unearned total income of £500 was liable to tax at 3s. = £75,* while one of £501 was liable at 3s. 9d. = £93 18s. 9d. To remedy this, the taxpayer, by surrendering the *excess income*, was

* Apart from abatement, etc.

allowed to reckon his tax on the remainder at the lower rate; thus, in the latter case—

Income Tax on £500 at 3s.	...	£75
Excess of income over £500	...	1
Total tax payable	...	<u>76</u>

By doing so he saved £17 18s. 9d.

This rule applied also to incomes only a little over the limits of exemption or abatement (p. 70).

9. *Residents in Foreign Countries* could not, as a rule, make any claim at all. The only exceptions were as follows:

(1) A person living abroad who received interest from Foreign and Colonial Securities, Stocks, Shares or Rents, paid in the United Kingdom, or from British Exchequer Bonds, War Loan 5 per cent. and National War Bonds, or Discounts on Treasury Bills, or War Expenditure Certificates, can recover any tax deducted on these.

(2) Crown servants (retired or not) and their widows, British missionaries abroad, and British subjects who were living abroad for reasons of health, can make claims *as if resident in this country*. Persons living in the Isle of Man or Channel Isles are in the same position. In making up their claims the entire income must be shown, even if part is derived from foreign sources.

The total income will show whether any allowance is due for abatement, wife, children, etc., and also the rate of tax ultimately payable on the British income. Any British tax charged on foreign income, or on War Loan Interest, etc., as above, is repayable in addition.

CHAPTER VII

SUPER-TAX

WHEN this tax was first imposed it only affected persons in receipt of incomes over £5,000 a year, and was considered as a separate tax from Income Tax. It is, however, now realised that it is essentially a variety of the latter, and as the exigencies of taxation have reduced the amount at which liability begins to £2,000, many thousands of persons are now liable, while the rate of tax has been greatly increased.

The income is reckoned in the same way as for Income Tax, and is, as a rule, based on the income of the previous year, but the amount on which it is payable is taken differently.

Once it has been ascertained, the rates payable are as follow :

First	£2,000 of income	...	...	...	Exempt
Next	500	„	(£2,001 to £2,500)	at 1/6 in the £	= £37 10s.
„	500	„	(2,501 „ 3,000)	„ 2/0	„ = 50
„	1,000	„	(3,001 „ 4,000)	„ 2/6	„ = 125
„	1,000	„	(4,001 „ 5,000)	„ 3/0	„ = 150
„	1,000	„	(5,001 „ 6,000)	„ 3/6	„ = 175
„	1,000	„	(6,001 „ 7,000)	„ 4/0	„ = 200
„	1,000	„	(7,001 „ 8,000)	„ 4/6	„ = 225
„	12,000	„	(8,001 „ 20,000)	„ 5/0	„
„	10,000	„	(20,001 „ 30,000)	„ 5/6	„
Over	30,000	„		„ 6/0	„

In making a return, the first thing to be noticed is that if any part of the income has already been

directly assessed to Income Tax the sum so assessed (as finally settled) in the previous year has to be shown on the Super-Tax return, irrespective of existing conditions. For example :

A. B. is in trade, and has made the following profits—using the word “profits” in the Income Tax sense :

1918-19	£15,000	} Average, £12,333. Average, £11,000.
1919-20	...	...	10,000
1920-21	...	...	12,000
1921-22	...	...	11,000

In making his Income Tax return for 1922-23, he would have returned for assessment the profits shown by the average of the three preceding years—viz., £11,000. But when called on to make a return for Super-Tax for the same year, he must show the profit assessed to Income Tax for 1921-22, which was based on the average of three different years, and works out at £12,333.

Further, when a person invests in War Loan, the interest is paid in full, and becomes chargeable to Income Tax only in the year following ; but for Super-Tax it is not assessable till the year after that.

Again, the allowances made for Income Tax do not apply to Super-Tax—viz., personal allowance, allowance for children or dependents, the one-tenth allowance on “earned” income, or Life Assurance. It is the gross income that is assessable as a rule ; but where an appeal has been made successfully against the Income Tax assessment and the latter has been reduced, or where an allowance has been

granted for cost of collection of rents, etc., or for extra repairs, the reduced figures should be taken. Any person in the Crown Service abroad may also deduct his official expenses not already provided for by a special grant for that purpose.

A further distinction is drawn as regards income taxed by deduction. The dividends of British companies are usually paid some weeks after the end of the company's financial year—say in May for the year ending on March 31st. For Income Tax a dividend of this sort would be reckoned as belonging to the year ending on April 5th intervening, but for Super-Tax it must be taken as income for the financial year in which it was received.

Similarly, deductions from income—such as mortgage interest, ground rent, annuities, and so on—are taken as deductions for the year in which they are paid, thus differing, as in the last case, from the Income Tax practice.

The point just referred to, dealing with the date when the income is received, may conceivably cause great fluctuations in Super-Tax returns. To take an extreme case, suppose a person's income is derived from one source, on which Income Tax is payable by deduction, and which is due on April 4th in each year. It is possible that owing to the fault of a clerk he might receive two consecutive cheques on April 6th, 1921, and on April 5th, 1922. This would, apparently, justify him in returning "nil" for Super-Tax for the year 1921-22; but, on the other hand, his return for 1922-23 would have to be the total of the amounts received in the

financial year ending on April 5th, 1922—that is, two years' income.

Super-Tax is really a deferred Income Tax, and it is payable whatever change has taken place in the income meantime. If a surgeon was assessed for 1921–22, to Income Tax, on £5,000, and gave up practice on April 5th, 1922, he would appear to be liable to Super-Tax for 1922–23, though no assessment for Income Tax would be made on him.

In case of death, however, only the proportion of the Super-Tax up to the date of death is payable.

From the foregoing it will be seen that Super-Tax and Income Tax assessments will not generally be the same.

As in the case of Income Tax, persons living abroad are liable to pay Super-Tax on sums received from this country, and it is incumbent on persons entrusted with such payments to notify the authorities before September 30th in each year. Husband and wife may also claim to be separately assessed, when the total liability on the whole income will be apportioned between them.

Special provision has been made in the 1922 Finance Bill for dealing with a form of evasion of Super-Tax that has become pretty frequent of late. Cases have occurred where a person has turned his estate into a limited liability company and declared no dividends. Under the old law, such undistributed profit need not be declared in the returns of the so-called shareholders; and there is no doubt that this practice, though perfectly legal, was very annoying to the Revenue officials. Henceforth, the

Special Commissioners have power to assess a member for his proportion, and if within 21 days he does not elect to pay the tax, or, having so elected, does not pay it by January 1st, payment may be enforced from the company. Naturally, where such undistributed profits have been assessed to Super-Tax, they are not again liable when at last they are distributed, and no assessment as above shall be made on any shareholder who is not a *beneficial* owner of shares, or who is an employé below the rank of director, or who is the wife or the unmarried infant child of a beneficial owner of shares.

Besides this special provision, further power is given to the Special Commissioners to enforce delivery of any details of a person's income, and very heavy penalties are incurred by non-delivery of such statement.

CHAPTER VIII

MISCELLANEOUS NOTES

It may be mentioned that for War purposes another tax was, till 1920-21, imposed on trade profits—not on employments or professions—called the Excess Profits Duty. It was charged on profits exceeding those made before the War by £200 per annum or over, and varied from 40 to 80 per cent. of the surplus.

The amount payable of this tax was subject to somewhat intricate rules, and as it was based on the amount of income, estimated as shown above, the amount of liability turned largely on matters of account. It therefore hardly comes within the province of this work, and it seems only necessary to say that any net payment of this sort is a deduction from profits for *Income Tax*.

All claims for correction of an overcharge to Income Tax should be made, if possible, before the tax has been paid. This can usually be done when the income is all earned, or where it is all derived from property assessed under Schedule A. Much time is saved by doing so, and, of course, you then pay only the net liability instead of an excessive sum, with a subsequent recovery of the excess.

Where, however, some of the income is taxed by

deduction, it often happens that the earned part, or that part assessed under Schedule A, is insufficient to allow the adjustment, and then a repayment claim is necessary. It is therefore essential that all dividend counterfoils and other vouchers showing the tax paid should be preserved for presentation in support of the repayment claim, as already mentioned.

The financial year runs from April 6th to April 5th. Repayment claims can be made as soon as the whole income for the year has been received; but if it is desired to make a claim half-yearly, a claim can be made, showing the prospective income for the year, and supported by counterfoils of dividend warrants, property tax receipts, etc., for the first half-year. In that case, half the year's rebate will be made, subject to adjustment when the next half-yearly claim is put in. In the case of owners of property, very probably the assessments will be corrected so as to render the second claim unnecessary, but there is, at present, no means of doing this in the case of ordinary dividends or interest.

If the tax paid on the half-year's income is sufficient to cover the *full relief claimable for the year*, the whole of the latter can be reclaimed at once, under the conditions shown on p. 63.

Where a British Company's dividend is paid in arrear, say on May 15th, in respect of the Company's year ending March 31st, the dividend is considered as forming part of the income of the year ending April 5th intervening; but incomes from foreign securities and Government stocks are "income" for the year in which they are due.

A tradesman need not make up his books to April 5th, but can select any suitable date he likes, provided he adheres to it consistently.

Except in the case of Naval and Military Pay, all allowances were, up to 1920, made first from Earned Income, and only from the Unearned part when the former was insufficient.

Except in the case of minors, no claim is admitted for more than three years ending on the last April 5th.* Up to April 5th, 1923, claims can be put in for the years ending April 5th, 1920, 1921, and 1922, except for overcharges under Schedule D. The latter must be put in as soon as possible after the overcharge could, with ordinary care, be discovered.

Any account sent in support of an appeal not made by the appellant himself or his staff, must be made by a professional accountant. No private person's certificate will be accepted, however skilful he may be.

No tax is repaid by the Revenue on the amount of the annual charges payable on property—*e.g.*, ground rents, mortgage interest (except on loans from Building Societies and equitable mortgages to Banks, etc.), or annuities secured on the property, for the reason already given—*viz.*, that on paying these the nominal owner is empowered to deduct tax at the highest current rate.

Married women separated from their husbands can claim as if single or widowed. They must show that the separation is a legal one, or, if not, that there is

* Under a recent concession (not statutory) a claim may be entertained for as much as six years in special circumstances, such as absence from the United Kingdom on active service, at the discretion of the Board of Inland Revenue.

no reasonable probability of the parties returning to cohabitation.

If they are living with their husbands, they can make separate returns, but any deductions claimed are shared proportionately by the husband. Prior to 1920, if the joint incomes were under £500, a married woman could claim total exemption or abatement on her own *business* income, though her property or investments were reckoned as the husband's. This concession ceased as from the 1920 Act.

Minors, Lunatics, and Other Incapacitated Persons whose Incomes are administered by Trustees.—Whether a claim of abatement, exemption, etc., can be made at once or not depends, in the case of minors, on whether their interest in the estate is an absolute one, or whether it is conditional on something in the future—*e.g.*, money left to a son, subject to his attaining the age of twenty-one, or doing something named by a certain date. If the interest is conditional, the claim must be deferred till after the date mentioned in the will or deed of trust, but it can then be made for the whole interval between the death and the fulfilment of the condition. The tax repayable will be reckoned as if the income for each year of the whole period had been equal to that of the year in which the contingency happened. This seems, at first sight, an extraordinarily liberal concession, as it is evident that the income would have steadily increased from re-investment of surplus funds; but, on the other hand, since the tax was graduated, large incomes receive

less relief proportionately than small ones, and if an income increased during a child's minority from £300 to £800, no retrospective claims of "abatement" could be made; while one that increased from £100 to £250 would get a refund exceeding the tax that would have been repayable had the claim been made annually.

If, however, the money is given absolutely, and the income is employed in the maintenance and education of the minor (as also in the case of lunatics or persons incapacitated), the claim can be made as soon as the financial year's income has been received, even if it is more than sufficient for this purpose, so long as it is within the limits of income laid down as in other cases.

In the past, Trustees have been put to some trouble where the trust is shared among several beneficiaries who may be entitled to relief, by the necessity of furnishing certificates showing deduction of tax from the shares. They can now send in one form (No. 40-2) giving particulars of the nature, amount, and division of the entire estate, and claimants need only refer to this, quoting the registered number.

In the past, cases of evasion of tax have been discovered, taking the shape of a revocable deed of trust, whereby a taxpayer settled part or the whole of his income on his children, but with power to control the income, or to withdraw the payments at his will; and then claims for personal allowances were put in for each alleged beneficiary, though in reality the income went entirely to one person. Such "trusts" will no longer be recognised.

Widows and Executors.—When a man dies during the year of assessment his income is reckoned up to the date of death, and the balance accruing subsequently, up to April 5th next, becomes the property of the person to whom it is left. This often means that a double claim can be made by the executor and the legatee. If, for instance, a person had an income of £600 from investments, he, during the year 1920–21, paid by deduction 6s. in the £, £180.

He was liable for £78 15s. only (see pp. 51, 52), and would therefore recover £101 5s. But if he died at the beginning of October, 1921, leaving his estate to his widow, a claim can be made by the executors in respect of the £300 accruing to that date, and by the widow on the next £300. In that case each claims to pay only on £300, less the allowances—£225 in the first case free, and £135 in the latter. In each case the residue is only liable at 3s. Between them, therefore, they recover £144.

In rendering statements of income any interest received in full should be returned on the sum received in the *previous* year, not the amount actually receivable in the year of assessment.

The following is believed to be a complete list :

- 5% War Loan (1923–47), interest payable June 1st and Dec. 1st.
- 5% Nat. War Bonds, repayable 1/10/22 and 1/4/23. Int. Apl. 1st and Oct.
- " " 1/2/24. " Feb. 1st " Aug.
- " " 1/10/24 " 1/4/25. " Apl. 1st " Oct.
- " " 1/10/27 " 1/4/28. " " " " "
- " " 1/2/29. " Feb. 1st " Aug.
- 5% Exchequer Bonds, issued 12/4/17 to 22/9/17. Int. Apl. 1st and Oct.
- Treasury Bills, discount on maturity.
- Half-yearly Government dividends not exceeding £2 10s.
- Interest paid in full or credited by a Savings Bank.
- Interest on a Post Office Account.
- Interest on a Bank Deposit Account.
- 6% Exchequer Bonds.

Conversion of Stock into 5½ per Cent. Treasury Bonds, etc.—When this takes place, and consequently the earlier part of the year's income is received in full, and the latter part less tax, and the total interest so received exceeds the original interest, the excess can be treated as follows, on application to the Inspector of Taxes :

- (a) It shall be omitted in computing the *total* income ;
- (b) but it shall be chargeable at the highest rate applicable to the latter, exclusive of the excess.

Interest paid in full out of taxed income is dealt with by the officials in a very peculiar way. Say a man with an income of £3,000 a year settles £300 a year on his daughter. The deed provides that this shall be paid in full. When the father makes his own return for Income Tax or Super-Tax, he shows it as gross £3,000 and net £2,700. Income Tax is paid by him on £3,000, and Super-Tax on £2,700. The Revenue, it is clear, obtains the full Income Tax on the entire income of both father and child. The former can claim any allowance to which he is entitled, but the latter gets no relief whatever. So one pays tax on income that does not belong to him, and the other does not get any relief on her small income. The ostensible reasons are :

- (a) The principle of taxation at the source obliges the father to pay on the annuity,

in the first instance, and leaves him to deduct tax from it on payment. Any covenant to the contrary is void in law.

- (b) The daughter has paid no tax, therefore she can recover none.

The latter contention is supported by a decision in the Courts, some years ago, that a dividend at the maximum rate allowed by a Gas Company's Private Act, "free of tax," was not to be reckoned as having paid any, so far as the recipient was concerned.

If the deed, in the case we are considering, had been worded so as to provide that the daughter should receive annually such a sum as, would, after deduction of Income Tax, provide a net income of £300, the father could apparently give a certificate that he had paid her £428 11s. 5d., less tax £128 11s. 5d., and all would be well! No objection could be raised by the Inland Revenue, and the lady could reclaim her £74 5s. for 1921-22.

Bonus Shares. — Where a company pays a dividend, not in cash but in the form of fully paid-up shares, it has been decided that these are not to be regarded as income by the shareholder.

The matter of deliberately false understatements of returns may be briefly referred to. If the Inspector detects one, he brings the subject to the attention of the person concerned, and invites him to rectify it, usually to an extent involving several years back. In such cases honesty is the best policy. An Accountant should, if necessary, be called in to make out proper figures, and the sum underpaid should be cheerfully

handed over. In cases of contumacy the Crown is not slow to claim its legal rights, and the penalties for fraud are exceedingly heavy. When, however, the taxpayer is able to show that the error was not a deliberate fraud, but an honest misunderstanding, the matter is generally settled by payment of the arrears.

The legal power to enforce payment in these cases only extends to three years back, but as the penalties for not having made a return or for having made an incorrect one are also enforceable for the same period, the person who disputes payment of old arrears on this ground may find himself in a very awkward position. A competent expert should be consulted in such cases. There is a legal maxim, "The man who is his own lawyer has a fool for his client." *Verb. sap.*

CHAPTER IX

SPECIMEN CASES UNDER THE OLD LAW

It is hoped that the foregoing instructions are sufficiently lucid to enable any reader to determine his own liability, but the following examples may perhaps be found useful as guides in making repayment claims for years prior to 1920-21:

1. A. B. owns five houses let at £40 each on annual tenancies. They are subject to a ground rent of £4 each, and a loan from the Thrift Permanent Benefit Building Society. He also owns the house he lives in, which is freehold, but is mortgaged for £200 at 5 per cent. His wife owns 40 shares in the X. Y. Z. Company, and received in the year dividends of £80 less £24 tax. She also owns 100 shares in the P. Q. Gold-mining Company, and received a dividend for the year of £1 a share "free of tax." A. B. is insured for £500, paying £25 premium, and has two children, aged eight and five respectively.

The claim will stand as on p. 90, assuming that the houses have paid tax at the full rate. He fills up the space showing the name of his wife, also that for his children, and that for the insurance claim, and attaches the premium receipt.

	<i>Income.</i>			<i>Tax Paid</i> <i>(1919 Rate).</i>		
Nos. 2, 4, 6, 8, and 10, Green Street, Barnstaple (Leasehold) (<i>Annex tax</i> <i>receipts if possible</i>)	£	s.	d.	£	s.	d.
Own residence (Freehold) <i>do.</i> ..	166	10	0	48	19	0
X. Y. Z. Company, Ltd. (<i>annex Counter-</i> <i>foils of Dividend Warrants</i>) ..	25	0	0	7	10	0
P. Q. Gold-mining Company, Ltd., <i>do.</i>	80	0	0	24	0	0
	142	17	2	42	17	2
	<hr/>			<hr/>		
	414	7	2	123	6	2
Less deductions—viz., interest paid to the Thrift Building Society (<i>as per</i> <i>certificate annexed</i>)	17	6	4	—	—	—
Ground rent on five houses above, paid to O. Rogers, 32, Camberwell Green, London, S.E.	20	0	0	6	0	0
Mortgage, £200 at 5 per cent., to C. Isaacs, Clun Street, Malvern ..	10	0	0	3	0	0
	<hr/>			<hr/>		
	47	6	4	9	0	0
	<hr/>			<hr/>		
Net income	367	0	10	115	6	2

As his entire income is not over £500, he reckons that he should pay tax only at 3s. in the £, so he calculates as follows:

	£	s.	d.	£	s.	d.
Net income	367	0	10			
Less abatement	£	s.	d.			
Wife	120	0	0			
Two children	50	0	0			
Insurance	65	0	0			
Building Society (interest already taxed) ..	25	0	0			
	17	6	4			
	<hr/>			277	6	4
	<hr/>			89	14	6
				13	9	2

and claims repayment of the difference, £101 17s.

He could not have got full redress without making a repayment claim, because even if all the tax on his

property were taken off before payment, he would still have paid the £66 17s. 2d. charged on his wife's dividends, which is £53 8s. more than his full liability.

2. J. S. is a schoolmaster at a salary of £150, and is buying the house he occupies, worth £24 a year, through a Building Society. It is freehold. His wife has a shop, and makes £100 a year from it. They have no children, but J. S. pays to a Superannuation Fund £3 a year, and in addition £5 for a Life Policy.

The gross income of the two was $£150 + 100 + 20 = £270$. As both were in business, they claim separate assessments as follows:

J. S., Salary	..	..	£	150
House	..	..	..	20
				<hr/>
				170
Less Interest to the Society, say				15
				<hr/>
Net	..	..	..	155

He claims as deductions—Abatement, £120; Wife, £50; Insurance, £8; Building Society Interest, £15, or £193 in all. As this exceeds his gross income, he is entirely exempt, and recovers every penny he has paid in tax.

His wife claims total exemption, and recovers anything paid on her shop. In this case the claims could both have been settled before any tax was paid.

3. M. G. is a widower, making trade profit assessed at £400, owns shares bringing in £120 a year, before deduction of tax, and has three children under sixteen. His sister acts as his housekeeper. He also pays £20 a year Life Assurance.

He should pay as follows:

	£		£	s.	d.
Trade	400				
Less abatement, £100; Widower's allowance, £50; Children's do., £90; Insurance, £20	260				
	<hr/>				
		140 at 3s. 0d. =	21	0	0
On Dividends		120 at 3s. 9d. =	22	10	0
			<hr/>	<hr/>	<hr/>
			43	10	0

His dividends, however, paid by deduction at the highest rate, so that he was overcharged on them to the extent of £13 10s., and if this £13 10s. has not been deducted from the £21 due on his trade, it can be reclaimed.

It will be noticed here that though M. G.'s income was over £500, yet, when the allowances were taken off, the total was brought below that figure. Tax is, however, reckoned at the higher rates of 3s. and 3s. 9d. respectively, instead of 2s. 3d. and 3s.

The reason is that the rate of Income Tax varied according to the income assessed, and *then* the allowances were made at that rate. They did not have the effect of entitling the person to pay a lower rate than he would have done had he not been put to the expense allowed for.

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